

## **America's Fiscal Future**

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Thank you for that kind introduction. It's a great honor for my wife Mary and me to be here this evening. To my knowledge, this is the first time a Comptroller General of the United States has spoken at the London School of Economics. I'd like to acknowledge my good friend and counterpart here in the United Kingdom, Sir John Bourn, who has strong ties to this school. Finally, I'd also like to acknowledge that several of my colleagues are here this evening, including my counterparts from Morocco and Peru. I'd like to thank Professor Patrick Dunleavy and his staff for their help in arranging this lecture.

I'm sure you've all heard the saying that the only sure things in life are death and taxes. But the truth is that there's a third certainty in our world, and that's the certainty of change.

One vivid example is the changing relationship between our two countries. The American colonies and England were at war in 1776, and we were at war again as recently as 1815. But today, we're strong allies on many issues of mutual interest and concern around the world. I can assure you that this relationship means a lot to America and to Americans, including me.

As we all know, during the last century, the United States played an increasingly important role in world affairs. For better or for worse, America's economic, foreign policy, military, and cultural influences have been increasingly felt on every continent and in every virtually nation. But no one should assume that this will be the case forever.

As a student of history, I couldn't agree more with the famous remark from philosopher George Santayana that "Those who cannot remember the past are condemned to repeat it." As history makes clear, no nation has been able to sustain its preeminence indefinitely. In fact, it's highly likely that in the next 20 years we'll see the emergence of at least one and possibly more new superpowers.

Nonetheless, in my view, the greatest threat to America's future isn't a new superpower or even persons hiding in a cave somewhere in Afghanistan or Pakistan. Instead, this threat is widespread, involving U.S. policymakers, the public, and even the press. What I'm talking about is a decline in societal values and political comity, combined with continuing ignorance and inaction on a range of known issues that are rapidly reshaping the United States and the world. I'm talking about known forces like changing demographics and global economic trends that are having an impact on a scale not seen since the Industrial Revolution. Unfortunately, these and other current and emerging challenges are getting too little attention, provoking too little concern, and prompting too little action.

Today in America, both policymakers and the public need to face the facts, take a long-term perspective, and accept the need for dramatic reform and some shared sacrifice. After all, when our days on this earth are nearing an end, we should be able to look our children and our grandchildren in the eye and say we did everything we could to pass on a community, a country, and a world that's better off and better positioned for their future. Unfortunately, unless things change, the "baby boom" generation may be the first generation in our country to not continue this long standing tradition.

Tonight, I'm going to talk about the challenges facing the United States and Europe, many of which are shared challenges. I'm then going to talk about the United States' growing fiscal imbalance and what that may mean not just for us but also for the international community. Finally, I'm going to discuss what the United States needs to do to get its fiscal house in order.

In today's world, no nation, including the United States, should try to go it alone. In fact, most developed nations now face a range of shared challenges that have no geopolitical boundaries. These challenges include such trends as the globalization of markets, enterprises, and information; changing demographics; new and emerging security threats; rapidly evolving technologies; and various quality-of-life concerns.

Globalization has been marked by increasing economic interdependence and accelerated integration of the worldwide capital markets. NASDAQ's recent tender offer for the London Stock Exchange is a recent vivid example of this. A recent World Bank report found that between 1990 and 2003, gross private capital flows in the United States, the United Kingdom, and

several other EU member countries more than doubled relative to GDP. Labor markets, and regulatory environments that were once primarily national in focus have also become more interdependent. More and more companies are becoming global in their reach, and their loyalties lie with their shareholders rather than a particular country.

Perhaps the most striking aspect of world interconnectedness has been the globalization of information. Thanks to the internet and other technology, there's virtually no lag time in the flow of information from one continent to another. This freer flow of information is a one reason that Eastern Europe is now free.

Beyond globalization, known demographic trends will also decisively change the American and global landscape of 2020 and beyond. The populations in the United States and many other countries are aging. Diversity is also increasing.

And yet, even with increased immigration, U.S. workforce growth is slowing and will continue to slow. This means that just when increasing numbers of baby boomers start to retire and draw benefits, there will be relatively fewer full-time workers to help support these retirees. What's more, people are living longer and yet hoping to retire earlier. All of these developments are going to put huge strains on our nation's pension and health care systems.

Clearly, this is a challenge that America shares with Europe, Japan, and other parts of the developed world. Consider that last year, 16 percent of the population in Britain, 17 percent of the population in Western Europe, and 12 percent of the population in the United States were over age 65. By 2030, those percentages are expected to rise to 21 percent for Britain, 25 percent for Western Europe, and 19 percent for the United States.

A relatively high personal savings rate in many European countries will help to cushion the impact of their aging populations. In 2003, the household net savings rate in Europe was about 10 percent of disposable income. According to OECD data, the savings rate in France that year topped 12 percent, and countries like Germany, Italy, Ireland, Norway, Switzerland, and Sweden weren't far behind. As I'll point out later, that's far from the case in America, where the annual savings rate has been extremely low in recent years and in 2005 actually declined to negative levels.

Significantly, the elderly dependency ratios in both our countries and elsewhere in Europe are rising. An added challenge in many European countries is the prospect of falling birth rates and shrinking populations. In a nutshell, there are going to be relatively fewer full-time workers to pay taxes and contribute to social insurance programs to support growing numbers of older individuals, many of whom are going to require expensive medical care.

Another shared challenge is changing security threats. With the end of the Cold War, we face new security threats, including transnational terrorist networks and rogue states armed with weapons of mass destruction. This is a threat that affects each and every one of us, as was made clear by the attacks in the United States in 2001, the train blasts outside Madrid in 2004, and the bombings in London last summer.

Other challenges come from technology. In recent decades, spectacular advances in technology have transformed everything from how we do business to how we communicate to how we treat and cure diseases. This has produced many benefits, including significant productivity gains in the workforce. However, because of technology, our countries are also struggling with privacy, information security, and other concerns. Sadly, the United States — which gave the world Thomas Edison, the Wright brothers, Jonas Salk, and Bill Gates — now ranks 25<sup>th</sup> in the world on math and science test scores.

As I mentioned before, the quality of life of Americans and others has, in many ways, never been better. But America and many other countries also face a growing and unhealthy gap between the haves and the have-nots. We in the United States are also facing a range of quality-of-life concerns in our personal lives, including underachieving public schools; gridlocked city streets; as well as mounting energy, environmental, and health care concerns.

On a per capita basis, the United States spends about double what the United Kingdom spends on health care. Today, nearly one out of every seven dollars in the U.S. economy goes for health care. Unfortunately, it's not at all clear that we Americans are getting a very good return on our health care investment. America's health care system is plagued by growing gaps in coverage, increasing numbers of uninsured individuals, and mediocre outcomes on basic measures like medical error rates, infant

mortality, and life expectancy. If there is one thing that could swamp our ship of state, its escalating health care costs. Health care reform won't be easy, but it's essential. What's needed are incentives for doctors and patients to make prudent choices about medical coverage and treatment, greater transparency on the quality and cost of care, and more accountability from health care plans and providers.

## **America's Four Deficits**

While the United States and other countries confront many shared challenges, perhaps the most urgent issue for America is our deteriorating financial condition and worsening long-term fiscal outlook. I should point out that a long-term fiscal imbalance isn't just a U.S. problem. A 2005 European Commission report warned that because of the growing old-age dependency ratio in the EU, there is, and I quote, "a risk of unsustainable public finance emerging in about half of the EU Member States."

Fortunately, the UK is not one of the referenced countries. In fact, the latest long-term finance report published by the Treasury, shows that the UK does not face the same challenges as the U.S. and selected EU countries.

The difference is in the scope and potential impact of the U.S. situation. The truth is that the United States now confronts four interrelated deficits with serious implications for our standard of living at home and our role in the world.

The first deficit we face is the federal budget deficit, which in 2005 was around \$319 billion on a cash basis. This widely reported number is somewhat misleading because it fails to take into account all the expenses the federal government incurred during the year. When these costs are included, using accrued accounting concepts, the federal government's net operating cost (or accrual based deficit) was actually \$760 billion — the highest ever recorded in the United States. I should point out that, contrary to widespread belief, the incremental costs for homeland security and our "war on terrorism" equal only about \$100 billion of America's fiscal 2005 deficit.

Even more troubling is that at the end of fiscal year 2005, the U.S. government's liabilities and unfunded commitments reached over \$46 trillion, up from about \$20 trillion just five years ago. Among other things, this includes unfunded promises for future Social Security and Medicare benefits, military and civilian retirement benefits, environmental cleanups,

and potentially large payouts for federal commitments under the Pension Benefit Guaranty Corporation or the National Flood Insurance Program. The new Medicare prescription drug benefit, which may be one of the most poorly designed, inefficiently implemented and fiscally irresponsible government programs of all time, has added almost \$9 trillion to our mounting burden. And these numbers don't even take into account the bills that are coming from rebuilding New Orleans and the Gulf Coast or future costs associated with Iraq and Afghanistan.

The second deficit is our savings deficit. Too many Americans — from individual consumers to elected officials — are spending today as if there's no tomorrow.

Last year, for the first time since 1933, our annual personal savings rate was negative. Think about it — the United States has returned to savings levels not seen since the depths of the Great Depression.

Clearly, many Americans, like their government, are living beyond their means and are deeply in debt. This trend is particularly alarming in an aging society such as our own. Those Americans who save more will certainly live better in retirement. Those Americans who save less are rolling the dice, and given the problems plaguing our nation's social insurance and other retirement systems, the odds are stacked heavily against these individuals. Recent cutbacks in retirement benefits and pension freezes at major U.S. corporations like General Motors, Verizon, Motorola, and IBM underscore the seriousness of the situation for the typical American worker.

So, who's been underwriting America's recent spending spree? The answer is foreign investors. And that brings me to America's third deficit — our overall balance-of-payments deficit. America is simply spending more than it's producing. In 2005, the current account deficits and U.S. trade deficits hit all time records, \$805 billion and \$724 billion, respectively, twice what they were only four years earlier.

Overseas money has been pouring into the United States. Thanks to the high saving rate in China, Japan, Korea, and elsewhere, it has been relatively cheap for America and Americans to borrow. But there's a catch, and it's a big one. Increasingly, we are mortgaging our collective future, and some of our leading lenders may not share our long-term economic and strategic interests. Imagine what would happen to the stock and bond markets if

these foreign investors suddenly lost confidence in U.S. securities and decided not to buy or, worse yet, started to sell off their holdings. Candidly, we would likely face some adverse effects if they simply decided to further diversify their future acquisitions of various government securities.

Finally, there's our fourth deficit, and it's probably the most sobering deficit of all. What I'm talking about is America's leadership deficit. Myopia and tunnel vision are now an epidemic in both government and private industry. At both ends of Pennsylvania Avenue in Washington, D.C., which runs from the White House to our Capitol building, both sides of the political aisle, and at all levels of government, there have been few champions for real and fundamental change. Instead, the government's continuing lack of fiscal discipline has made our long-term situation even worse. The government's recent spending sprees and deep tax cuts are nothing less than a body blow to overall fiscal responsibility. The truth is, if the U.S. government took a fiscal fitness test today, it would flunk.

At the same time, Wall Street and the American business community have not been as vocal on this issue as they should be. In fact, many business leaders have essentially been "missing in action." But the private sector really does have a strong stake in this situation, because if government keeps on its present course, companies are going to pay a price, whether it's higher borrowing costs, rising tax burdens and/or slower revenue growth.

What we've got going are the elements of a perfect storm, a potent mix of ignorance, apathy, and inaction at all levels and all sectors of American society. If we continue on our present course, a fiscal crisis is only a matter of time.

This should be a matter of concern to the rest of the world. The continuing health of the U.S. and other major economies helps to promote global stability and provide economic opportunities for both the developed and the developing worlds. As the old saying goes, in today's world, if America catches a bad cold, the rest of the world will eventually get the flu. In this case, prevention really is the best medicine.

## **Restoring Fiscal Discipline**

Although I may be one of the few voices back in the United States leading the charge on fiscal sanity, I try to do more than just explain the problem. I also suggest concrete ways to turn things around. This includes improving overall transparency and enhancing debate regarding what the U.S. government does and how it does business. The challenges I've discussed aren't partisan issues, and the solutions aren't either. Part of the problem is that too many U.S. politicians prefer to see things through a partisan prism. Issues are viewed in terms of how they will affect the next election cycle rather than the next generation.

In my view, the first order of business for the U.S. government is to restore fiscal discipline. Greater transparency and accountability in government is essential. The important thing to remember is that if you're in a hole you need to stop digging.

For years, Americans have shrugged off warnings about America's deficit and debt problems. This response isn't surprising. Interest rates remain relatively low, inflation is modest, "official" budget projections don't seem unduly alarming, and some politicians continue to claim that "deficits don't matter" or that "we'll grow our way out of the problem."

As a certified public accountant and the federal official who signs the audit report on the U.S. government's financial statements, I'm here to tell you that America's finances are far worse than advertised. Furthermore, deficits do matter, especially if they are large, structural, and growing in nature.

Every year, the U.S. government issues a comprehensive financial statement. For a ninth year, my agency, the U.S. Government Accountability Office (GAO), could not express an opinion on the reliability and completeness of the financial information in these statements. We also found a number of significant material control weaknesses. Furthermore, we included an "emphasis paragraph" noting that the U.S. Government has a broken business model and that dramatic and fundamental change is essential to restore our long-term fiscal balance.

A major problem is the government's escalating liabilities and unfunded promises for social insurance and other programs, which, as I said before, now top \$46 trillion. This amounts to \$156,000 per American or \$375,000 per



full-time worker. These numbers deserve far more prominence and discussion in the government's financial statements. We also need to explain the intergenerational implications of this burden, which is growing every second of every day because of continuing deficits, demographic destiny, and compounding interest costs.

Clearly, a crunch is coming, and all of the federal government will eventually feel its impact. Long-range simulations from my agency show that if we continue on our present path, increasingly drastic measures on spending and/or taxes will be required to balance the budget. If nothing is done, by 2040, federal government revenues may be enough to pay only partial Social Security benefits and interest on the national debt.

Under such scenarios, higher interest rates and inflation are inevitable. As the U.S. government is forced to borrow more money to finance its debt, less money will be available for U.S. companies to innovate, improve, and stay competitive. Eventually, long-term economic growth will suffer, and along with it American jobs, our standard of living, and, over the long term, even our national security.

So as you can see, it does matter how a nation keeps score. After all, if a government cannot be honest with itself and with its citizens about its finances, how can a government ever make the difficult policy choices needed to help secure a nation's future?

## **Federal Accountability Reforms**

Ironically, America tends to be more open and transparent than much of the world when it comes to government finances. Even so, the United States needs to modify its federal accounting and reporting model to more accurately reflect America's true financial condition and long-term fiscal outlook.

For example, there should be more explicit discussion about the relationship of the federal government's existing commitments and responsibilities, including social insurance, to measures like the gross domestic product and various per capita figures. There should be more explicit discussion about the federal government's long-term financial imbalance relative to measures like GDP, which is now used by the EU and their intergenerational complications. There should also be more explicit

discussion about the size of tax increases or spending cuts needed to bring the government's finances into balance.

Accurate, timely, and useful information on federal operations is vital, but policymakers and the public also need information in a format that they are likely to read and understand. That's why my agency, the U.S. Government Accountability Office (GAO), strongly advocates creating a summary annual report for the federal government, a document that would not only be useful but used.

Existing budget processes also need to be reformed. Right now, we need to set realistic spending caps and impose pay-as-you-go rules on both the spending and the tax sides of the ledger. Members of Congress should have more explicit information on the long-term costs of spending and tax bills—before they vote on them. Our new Medicare prescription drug benefit has become the poster child for much-needed changes in this area.

## **Transforming Government**

Today much of the U.S. government's spending programs and tax policies remain on autopilot and are based on social, economic, national security, and other conditions straight out of the 1950s and 1960s.

It's time we started asking what the proper role of the government should be in the 21st century. How should it be organized? How much will it cost, and how will we pay for it?

Nothing less than a top-to-bottom review of federal activities is needed to determine which agencies are meeting their objectives and which agencies aren't. This will also help free up resources for other needs. Congress and the President need to decide which policies and programs remain priorities, which should be overhauled, and which have simply outlived their usefulness.

Entitlement reform is particularly essential. We need to restructure our Social Security, Medicare, and Medicaid programs and make them solvent and sustainable over the long run. We also need to reengineer the base of federal spending and tax policies.

To help in this effort, GAO has published an unprecedented report that asks a series of probing questions about both mandatory and discretionary spending and tax policy. For example, can we better allocate resources across the armed services to address current and future security threats? Is it time to reconsider some long-standing tax incentives, such as the health care income and payroll tax exclusions?

I should stress that while GAO isn't a policymaking institution, decades of experience and expertise put GAO in a unique position to help stimulate discussion and debate. Our report is called "21<sup>st</sup> Century Challenges: Reexamining the Base of the Federal Government," and you can find it free on our website at [www.gao.gov](http://www.gao.gov).

I'm also hopeful that GAO's work will encourage the development of a set of key national indicators. These are quantitative and outcome-based measures that policymakers can use to better assess the United States' position and progress over time in relation to other nations on benchmark issues like public safety, health care, housing, and the environment. For years now, several foreign governments have been using indicators to successfully prioritize and target public resources. It's time the U.S. government did so as well.

Transforming the U.S. government won't happen overnight. Elected, appointed, and career officials will need to work together for a sustained period of time—perhaps a generation or longer. Government also needs to look outward and reach across institutional and political lines. In the coming years, businesses, professional organizations, universities, and nonprofit groups will be important sources of new ideas to address old problems. And American politicians will need to start caring more about what's right for our country rather than what's right for their party. In the end, it'll take patience, persistence, perseverance, and even pain before we finally prevail in our overall transformation efforts. But prevail we must.

## **The New GAO**

Supreme Audit Institutions (SAIs) are dedicated to speaking truth, promoting transparency, fighting corruption, improving government performance and assuring accountability to the people. Like the NAO in the UK and GAO in the US, SAIs have a vital role to play in drawing attention to serious fiscal and other problems in government. Insulated from day-to-day

political pressures and with a reputation for professionalism, independence, and integrity, SAIs are uniquely positioned to make a difference in a range of government operational areas. SAIs can also play a key role in helping to evaluate government programs and policies and develop possible solutions to many of the public policy challenges I've discussed this evening.

Increasingly, this process will need to be collaborative. Progress will depend on a willingness to partner with one's peers. Ultimately, the goal should be global convergence on major accounting and audit standards, reporting models, and audit reports. This is why GAO has been working so closely with our overseas counterparts and with accountability organizations around the world, notably the International Organization of Supreme Audit Institutions (INTOSAI). Other areas of significant progress include the development of ethical codes for government auditors and the establishment of best practices on vital issues like public debt management, environmental auditing, and privatization.

In this context, I think it's worth discussing briefly some of the changes we've made at GAO to "lead by example" and better position ourselves for the future. GAO is sometimes called the "investigative arm of Congress" or the "Congressional watchdog." We're in the business of helping government work better and holding it accountable to the American people. To this end, GAO provides Congress with oversight of agency operations, insight into ways to improve government services, and foresight to help address emerging challenges before they reach crisis proportions.

Most GAO reports go beyond the question of whether federal money is being spent appropriately. Instead, we typically look at whether federal programs and policies are meeting their objectives and the needs of society. GAO also typically looks at the results that departments and agencies are getting with the taxpayer dollars they spend. After all, the public is always interested in whether they're getting good value for their money.

The scope of GAO's work includes virtually everything the federal government is doing or thinking about doing anywhere in the world. You might be surprised to learn that GAO teams have been in Iraq recently looking at everything from military logistics to contracting costs to the U.N.'s oil-for-food programs. We've also been down in New Orleans and the Gulf Coast looking at the government's emergency response efforts in the wake of Hurricane Katrina.

Our work has impact because politicians can count on GAO to get the facts and conduct professional and non-partisan analysis. Unlike most players in the nation's capital, GAO has no hidden agenda and we're objective. That's why both Democrats and Republicans alike use GAO reports as the basis for hearings, floor statements, and legislation. In news stories, GAO continues to be one of the most cited sources anywhere in the United States and the world.

When I became Comptroller General and head of the GAO more than seven years ago, I made GAO's own transformation a top priority. As Comptroller General, I serve a 15-year term of office, the longest appointed term in the U.S. government. This long term helps insulate GAO from day-to-day political pressures, and it's also allowed me to oversee a range of internal changes to enhance GAO's performance, ensure our accountability, and help better position us for the future.

In just seven years, by attempting to lead by example and working together internally and with Congress, we've taken GAO from an "at-risk" federal agency to a "model federal agency." We're much more in step with the information needs of policymakers and the public, and we're well prepared to take on Congress' toughest audit assignments.

The keys to our success are straightforward:

- We seek to lead by example in all major operational areas.
- We focus on outcome-based results.
- We meet the legitimate needs of our congressional clients.
- We hire great people, empower them, listen to their concerns and suggestions, invest in them, and reward their performance.
- We continually invest in new technology.
- And we partner with other organizations, both at home and abroad, on issues of mutual interest and concern.

GAO now has a strategic plan in place to help guide and coordinate the agency's efforts. Incredibly, this is an idea that is only now beginning to take hold in the U.S. government. In the case of GAO, the strategic plan defines our mission, incorporates our core values, lays out the key trends and themes we plan to look at, and outlines the agency's goals and objectives. We update the plan every couple of years to reflect changing congressional needs and national priorities.

GAO's own strategic goals are ambitious but straightforward. We seek to produce positive and measurable results for Congress and the American people. We try to meet Congress' information needs. We want to help reinvent government to ensure that it keeps pace with the current and emerging challenges. And finally, we seek to be a world-class professional services organization that just happens to be in the federal government.

Getting and reporting on results has been central to GAO's transformation efforts. Since 2000, GAO has issued annual performance and accountability reports that inform Congress and the American people about GAO's accomplishments and its plans for the coming year. Our progress in meeting each strategic goal is also highlighted. For example, in fiscal year 2005, GAO's work produced nearly \$40 billion in measurable financial benefits. That's an \$83 return on every dollar invested in GAO.

We also made thousands of recommendations to improve government operations. And as our most recent annual report notes, a record 85 percent of these recommendations are being acted on by Congress or the relevant agency. Frankly, this sort of straightforward cost/benefit reporting needs to become standard throughout the U.S. government. In my view, the American people have a right to know what federal departments and agencies have been doing with the taxpayer dollars they've been given.

Internally, GAO is now a flatter, more flexible, more results oriented, and more cooperative organization. We've modernized our technologies. We've also transformed our human capital policies and practices to attract top talent and reward outstanding performance. I'm proud to say that we're now a recognized leader in these and other areas. Externally, GAO regularly partners with other government agencies and outside organizations dedicated to "good government." If GAO can do it, others can too.

## **Leading Change to Mitigate Risk**

I'm a big believer in three basic principles of "good government." Those principles are truth, transparency and accountability. Sound public policy is based on solid facts and unbiased analysis, not spin. That's one reason GAO exists and why I take seriously my responsibility to speak out on a range of complex and sometimes controversial issues, issues that cry out for attention and action.

I strongly believe that with objective, fair, and balanced information on government activities, the U.S. Congress is better positioned to make reasoned and responsible policy decisions that are in the best interests of the nation and its citizens. Solid information on government activities also helps ensure that no one is above the law and that every public office holder must answer to the American people.

Being the head of GAO isn't always an easy job, and some people don't value truth and transparency. But as Harry Truman once said about his nickname of "Give 'Em Hell Harry," "I never give anybody hell. I just tell them the truth and they think it's hell." I can assure you that GAO and I will continue to speak truth to power and tell it like it is.

Sometimes the folks over on my side of the Atlantic can seem to dither and delay until they're fully convinced of the need to act. Time and again, under far more dire circumstances, Winston Churchill had to make the case for greater American involvement in the war effort. Thankfully, Churchill was persistent and persuasive. But the truth is that once we Americans get behind an issue, watch out!

The difficulty right now is a lack of clear and sustained leadership to show us the way forward. Today, it's clear that to deal with America's current and emerging challenges, we're going to need effective leaders in all sectors of society and at all levels of government. Leadership also needs to come from the private and nonprofit sectors, academia, and the media.

In the final analysis, these leaders are going to need to have four key attributes: courage, integrity, creativity and stewardship.

We're going to need leaders who have the courage to state the facts, to speak the truth, and to do the right thing, even when it isn't popular. It's

critical that those in positions of power and trust set their sights higher than what's prescribed by law or regulation, which generally represents the "floor" or minimal standard of acceptable conduct and not the desired state. Individuals who strive to meet a higher set of moral and ethical standards.

We're going to need leaders who have the integrity to lead by example and to practice what they preach. We're going to need leaders who are able to innovate and develop new solutions to old problems and help show others the way forward. Finally, we're going to need leaders who take their stewardship responsibilities seriously. These individuals understand that their job is not just to leave things better off when they leave than when they came but also to leave things better positioned for the future.

Recent history provides two examples of countries whose leaders took very different approaches to looming challenges. Before World War II, Argentina was one of the most prosperous nations in Latin America. Today, largely because of a combination of poor policy choices and outright inaction, Argentina has serious economic problems. In 2001, Argentina experienced the largest public debt default in history, and its standard of living has steadily declined.

On the other hand, there's the example of New Zealand. Like the United States and Europe, New Zealand has an aging population. Unlike the United States, New Zealand has taken steps to deal with the growing burden associated with its government pension system and other public benefits. New Zealand is a work in progress, but at least its leaders have acknowledged the challenges at hand and have begun to address them.

It's time the United States, and many other nations faced up to the challenge of our changing world. Because the truth is, thanks to the forces of globalization and other long-term trends, whether we live in Washington, London, or Beijing, we're increasingly in the same boat. As I said before, no country can or should go it alone. We're going to have to partner with each other to develop shared solutions to these problems. The choice is simple. We can start rowing together or we can risk sinking separately.

As a republic, the United States has existed for a little more than 200 years. In the context of both English and world history, I know that's not a long time. For example, the Roman Republic endured for about 500 years, before it finally fell – more than twice as long as the American experiment in



representative government has lasted so far. The Roman Republic ended for many reasons, but three seem particularly relevant to today. The first reason was a decline in moral values and political comity at home. The second reason was over-confidence and over-extension abroad. The third reason was fiscal irresponsibility by the central government.

As I pointed out earlier, by learning from history, we can avoid repeating the mistakes of the past. We can and we must address the challenges I've discussed. And we need to do it sooner rather than later, while there's still a window of opportunity to act.

For many of the challenges I've mentioned, a few substantive reforms phased-in over time will make a huge difference. That way, we can minimize the need for drastic measures down the road and give all of our citizens more time to adjust to any changes.

In closing, America has faced great challenges in the past and we have always risen to face the challenge. I am convinced that we can, we must and eventually we will ultimately rise to meet this challenge. My efforts are designed to help to assure that we do so sooner rather than later not just for our country's sake, but for the sakes of our children, grandchildren and others who will suffer in the wake of our problems if we fail to act. The time for action is now!